

# *Office of the State Auditor*

## *Division of State Audit*

### Indian Affairs Commission Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2006  
Client Code 316

*Robert R. Peterson*  
*State Auditor*



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# Contents

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<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Background Information</i>	<i>5</i>
<i>Audit Objectives, Scope, And Methodology</i>	<i>6</i>
<i>Management's Discussion And Analysis</i>	<i>7</i>
<i>Financial Summary</i>	<i>7</i>
<i>Internal Operations Changes</i>	<i>8</i>
<i>Financial Statements</i>	<i>9</i>
<i>Statement of Revenues and Expenditures</i>	<i>9</i>
<i>Statement of Appropriations</i>	<i>10</i>
<i>Statement of Appropriations</i>	<i>11</i>
<i>Internal Control</i>	<i>12</i>
<i>Compliance With Legislative Intent</i>	<i>13</i>
<i>Performance Reviews</i>	<i>14</i>
<i>Operations</i>	<i>15</i>
<i>Prior Recommendations Not Implemented</i>	<i>16</i>
<i>Management Letter (Informal Recommendations)</i>	<i>17</i>

## *Transmittal Letter*

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August 29, 2006

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Cheryl Kulas, Executive Director

We are pleased to submit this audit of the Indian Affairs Commission for the two-year period ended June 30, 2006. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Andrea Wike. Kristi Misek was the staff auditor. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Cheryl Kulas and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## **INTRODUCTION**

The North Dakota Indian Affairs Commission was established in the 1949 State Legislature to facilitate working relationships between the state and tribal governments. The function of the Commission is to be the liaison between the executive branch and the tribes of North Dakota. Duties include mediation service with the tribes and state and working with other state agencies regarding proper protocol in working with Indian people and tribal governments.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

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The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

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### *1. What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Indian Affairs Commission in accordance with generally accepted accounting standards so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

### *2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes. Other than our finding addressing "performance reviews" (see page 14), the Indian Affairs Commission was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

### *3. Was internal control adequate and functioning effectively?*

Yes.

### *4. Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

### *5. Has action been taken on findings and recommendations included in prior audit reports?*

The Indian Affairs Commission has implemented all but one of the recommendations included in the prior audit report (see page 14).

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 17 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified, or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Indian Affairs Commission's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Indian Affairs Commission.

## ***Background Information***

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**T**he mission of the North Dakota Indian Affairs Commission is to assist and mobilize the support of the state and federal agencies in assisting Indian individuals and groups in North Dakota, especially the five tribal councils, as they seek to develop their own goals, project plans for achieving those goals, and implement those plans.

The North Dakota Indian Affairs Commission is the liaison between the executive branch and the tribes in North Dakota. Duties include investigating any phase of Indian affairs and to assemble and make available the facts needed by tribal, state, and federal agencies to work effectively together; assisting tribal, state, and federal agencies in developing programs whereby Indian citizens may achieve more adequate standards of living; assisting tribal groups in developing increasingly effective institutions of self-government; working for greater understanding and improved relationships between Indians and non-Indians; seeking increased participation by Indian citizens in local and state affairs; conferring with and coordinating officials and agencies of other governmental units and congressional committees with regard to Indian needs and goals; and encouraging and proposing agreements and accords between federal, state, and local agencies and the several tribal governments, and, pursuant to chapter 54-40.2, to assist in monitoring and negotiating agreements and accords when asked by an affected tribe.

The Executive Director of the Indian Affairs Commission is Cheryl Kulas. She was appointed by Governor John Hoeven and has been with the agency since April 2001.

The North Dakota Indian Affairs Commission's budget for the 2003-2005 biennium totals \$440,243. The budget for the 2005-2007 biennium totals \$407,297. This represents a 7.5% decrease over the 2003-2005 budget. The state general funds comprise 81% of the 2003-2005 budget and 95% of the 2005-2007 budget.

More information about the agency can be obtained from the Indian Affairs Commission's home page at:

<http://www.health.state.nd.us/ndiac/>.



# ***Audit Objectives, Scope, And Methodology***

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## *Audit Objectives*

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The objectives of this audit of the Indian Affairs Commission for the two-year period ended June 30, 2006 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Indian Affairs Commission's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Indian Affairs Commission and are they in compliance with these laws?
3. Are there areas of the Indian Affairs Commission's operations where we can help to improve efficiency or effectiveness?

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## *Audit Scope*

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This audit of the Indian Affairs Commission for the two-year period ended June 30, 2006 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

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## *Audit Methodology*

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- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures, journal vouchers, and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed Indian Affairs Commission written plans and applicable manuals.
- Observed Indian Affairs Commission's processes and procedures.
- Reviewed North Dakota Century Code chapter 54-36 and 2003 and 2005 Session Laws.
- Searched for recent studies or reports relating to the Indian Affairs Commission.

## ***Management's Discussion And Analysis***

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The accompanying financial statements have been prepared to present the Indian Affairs Commission's financial position and results of operations in a manner similar to that used for financial reporting in the private sector. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Indian Affairs Commission's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period June 30, 2006, operations of the Indian Affairs Commission were primarily supported by appropriations from the state's general fund. This is supplemented by pass-thru federal funding from the Department of Human Services for the Olmstead Real Choices System grant.

The primary functions of the North Dakota Indian Affairs Commission (NDIAC) are networking and advocacy and information sharing and administration of the office. The Commission's three-person staff serve in a representative capacity on over 27 state and inter-agency related committees. The Executive Director functions as a liaison between Tribal Governments and their leaders, Tribal Chairpersons, and the Governor of North Dakota, who serves as the chair of the Commission.

Because of the relative size of staff and a limited budget, the agency has sought to provide more effective and efficient ways of communication between and among tribal governments and state agencies.

### ***FINANCIAL SUMMARY***

The Commission's revenue consists primarily from the state general fund. Other revenue during the audited period included an Emergency Commission approved spending authority of \$20,000. That amount consisted of a carryover from a federal flow-through grant from the ND Department of Human Services in the amount of \$85,000. The funding cycle of the Grant was September of 2003 through June, 2005. The authorized carryover period was July 1, 2005 through September 30, 2005. Not all of

the carryover authority was used because of time limitations and unexpended funds were returned to the ND Department of Human Services.

### ***INTERNAL OPERATIONS CHANGES***

The changes in operations reflected decreased spending in professional services and increased spending in office supplies, printing, and operating fees and services. Greater outreach can be attributed to a portion of the increases in the agency's travel budget, and is consistent with the agency's goals. The NDIAC office hired a consultant to work with the Commission in the development of a strategic plan. Increases in office supplies and printing were due to publication, printing and dissemination of the final report of the federal flow-through project.

## *Financial Statements*

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### **STATEMENT OF REVENUES AND EXPENDITURES**

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<b><u>Revenues and Other Sources:</u></b>		
Miscellaneous General Revenue		\$ 383
Culture and Recreation		387
Transfers In		62,766
<b>Total Revenues and Other Sources</b>	<u>\$ 0</u>	<u>\$ 63,536</u>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 164,687	\$ 156,963
Travel	6,155	5,465
Office Supplies	4,525	2,062
Printing and Postage	3,628	757
IT - Data Processing and Communications	3,474	2,839
Operating Fees and Services	3,322	1,840
Professional Services	2,851	61,581
Office Equipment and Furniture	1,910	
Insurance	477	824
Professional Development	435	1,124
Rentals/Leases - Bldg/Land	319	630
Supply/Material-Professional	130	525
IT Equipment		1,594
Supplies - IT Software		432
<b>Total Expenditures and Other Uses</b>	<u>\$ 191,911</u>	<u>\$ 236,636</u>

## STATEMENT OF APPROPRIATIONS

For The Fiscal Year Ended June 30, 2006

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 343,402		\$ 343,402	\$ 164,687	\$ 178,715
Operating Expenses	63,895		63,895	24,786	39,109
<b>Totals</b>	<u>\$ 407,297</u>	<u>\$ 0</u>	<u>\$ 407,297</u>	<u>\$ 189,473</u>	<u>\$ 217,824</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 387,297		\$ 387,297	\$ 188,380	\$ 198,917
Other Funds	20,000		20,000	1,093	18,907
<b>Totals</b>	<u>\$ 407,297</u>	<u>\$ 0</u>	<u>\$ 407,297</u>	<u>\$ 189,473</u>	<u>\$ 217,824</u>

### Expenditures Without Appropriations Of Specific Amounts:

Indian Affairs Commission Printing Fund has a continuing appropriation authorized by NDCC section 54-36-08. There was \$1,624 in expenditures for this fiscal year.

## STATEMENT OF APPROPRIATIONS

For The Fiscal Year Ended June 30, 2005

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 314,311	\$ 183	\$ 314,494	\$ 313,728	\$ 765
Operating Expenses	40,932	84,817	125,749	100,110	25,639
<b>Totals</b>	<u>\$ 355,243</u>	<u>\$ 85,000</u>	<u>\$ 440,243</u>	<u>\$ 413,838</u>	<u>\$ 26,405</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 355,243		\$ 355,243	\$ 351,073	\$ 4,170
Other Funds		\$ 85,000	85,000	62,766	22,234
<b>Totals</b>	<u>\$ 355,243</u>	<u>\$ 85,000</u>	<u>\$ 440,243</u>	<u>\$ 413,838</u>	<u>\$ 26,405</u>

### Appropriation Adjustments:

The \$183 increase in Salaries and Benefits line item was to move spending authority from the Operating Expenses line item into the Salaries and Benefits line item for a health insurance premium increase effective July 1, 2005 to apply to the June 2005 payroll. This was approved by the Emergency Commission.

There was also an increase of \$85,000 in the Operating Expenses line item from pass-thru funding from the Department of Human Services approved by the Emergency Commission to be used for the partnership planning meetings as set up in the Omlstead Real Choices system grant.

## *Internal Control*

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In our audit for the two-year period ended June 30, 2006, we identified the following areas of the Indian Affairs Commission's internal control as being the most important:

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### *Internal Controls Subjected To Testing*

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- Controls surrounding the processing of expenditures.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses. However, we noted a certain matter involving internal control that we have reported to management of the Indian Affairs Commission in a separate letter dated August 29, 2006.

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2006, we identified and tested Indian Affairs Commission's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

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### *Legislative Intent Subjected To Testing*

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- The use of Fund 364, the Indian Affairs Commission printing fund. This fund is a legally restricted fund and can only be used for the purposes of producing and distributing publications and informational and educational materials.
- Fees are established for the publications and informational and educational materials that are equal to the postage and printing cost of the publications (North Dakota Century Code section 54-36-09).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2003 North Dakota Session Laws chapter 5 and 2005 North Dakota Session Laws chapter 33).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted certain immaterial instances of noncompliance that we have reported to management of the Indian Affairs Commission in a separate letter dated August 29, 2006.



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Finding 06-1

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## **PERFORMANCE REVIEWS**

The employees of the Indian Affairs Commission have not received performance reviews since February 2001. North Dakota Administrative Code 4-07-10-04 established the criteria for performance management programs, including the requirement that performance reviews be conducted at least annually. Without giving performance reviews, employees are not informed about their past performance and also no discussion is held on how their performance may be improved or how skills may be developed.

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Audit Recommendation  
and Agency Response

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### **Recommendation:**

We recommend the Indian Affairs Commission give performance reviews to their employees on an annual basis in accordance with North Dakota Administrative Code 4-07-10-04.

### *Indian Affairs Commission Response:*

*Recommendation has been implemented. Meetings have been held with Human Resources Management. Documents developed and performance reviews will be completed by the end of 2006 with plans to conduct reviews in 2007 in accordance with ND Administrative Code 4-07-10-04.*

## *Operations*

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This audit did not identify areas of Indian Affairs Commission's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Prior Recommendations Not Implemented***

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Prior recommendations have been implemented with the exception of the following:

### **Recommendation**

We recommend the Indian Affairs Commission give performance reviews to their employees on an annual basis in accordance with North Dakota Administrative Code 4-07-10-04.

### **Status**

Not implemented, see page 14 for new recommendation.

## ***Management Letter (Informal Recommendations)***

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August 29, 2006

Ms. Cheryl Kulas  
Executive Director  
Indian Affairs Commission  
600 E Boulevard Avenue  
Bismarck, North Dakota 58505

Dear Ms. Kulas:

We have performed an audit of the Indian Affairs Commission for the two-year period ended June 30, 2006, and have issued a report thereon. As part of our audit, we gained an understanding of the Indian Affairs Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions that we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

### **LEGISLATIVE INTENT**

Informal Recommendation 05-1: We recommend that the Indian Affairs Commission have proper support for travel vouchers, properly code travel expenditures, and comply with NDCC Sections 44-08-03, 44-08-04, and 54-06-09 regarding travel expenses.

Informal Recommendation 05-2: We recommend the yearly inventory be taken by an individual who does not maintain the inventory records. We also recommend that the agency work with OMB to utilize the Asset Management System on PeopleSoft to track their inventory.

Management of Indian Affairs Commission agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Andrea Wike  
Auditor in-charge